COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

MODIFICATIONS TO WESTERN KENTUCKY GAS COMPANY, A DIVISION OF ATMOS ENERGY CORPORATION (WKG) GAS COST ADJUSTMENT TO INCORPORATE AN EXPERIMENTAL PERFORMANCE-BASED RATEMAKING MECHANISM (PBR)	)	CASE NO. 97-513

O R D E R

IT IS ORDERED that Western Kentucky Gas Company ("WKG") shall file the original and 10 copies of the following information with the Commission, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a response requires multiple pages, each page should be indexed appropriately, for example, Item 1(a), page 2 of 4. With each response, include the name of the witness who will be responsible for responding to questions related thereto. Careful attention should be given to copied material to ensure that it is legible. The response to this request is due February 27, 1998.

1. Refer to page 2 of 10 of WKG's application.

a. Provide a copy of the Order of the Tennessee Public Service Commission mentioned on lines 3 and 4.

b. Describe the foreseeable possibilities in modifications to WKG's purchasing practices as mentioned in the first full paragraph.

2. Refer to page 4 of 10 of WKG's application. WKG discusses in the first full paragraph the Commission's failure to approve LG&E's proposal to offset financial transaction costs associated with risk management activities against gas cost savings. What is WKG's proposal in regard to recovery of these costs?

3. Why does WKG not include pipeline storage or its own system storage in its PBR?

4. Refer to page 8 of 10 of WKG's application. To what "newer gas supply arrangements" is WKG referring in line 7 of the first full paragraph?

5. As part of its application WKG has calculated what its savings against the benchmark would have been during the time period November 1996 through October 1997. Calculate what savings or expenses against the benchmark would have been over each of the two preceding years.

6. Refer to page 9 of 10 of WKG's application, the explanation of PBR Part B. What opportunities exist for lowering the rates for the transportation of natural gas? Does WKG currently have discounted transportation rates?

7. Is WKG now making or has it ever made off-system sales? If so, provide details as to time periods, volumes, and sales revenues. If not, describe what opportunities exist for WKG to make such sales.

8. Refer to the Direct Testimony of James R. Harrington.

a. On page 12, line 12, it is stated that the proposed PBR program lowers the cost of regulation. Explain.

b. On page 12, line 22, explain the phrase "associated costs for the gas cost calculation." What are these costs and how will they be eliminated?

c. Explain the statement on page 14, lines 13 and 14, that the PBR program will allow WKG to regain some competitiveness with other gas marketers serving Kentucky.

d. Refer to page 16, lines 13 and 14. How is the "active ingredient" of heavy emphasis on external performance standards, for example, data on the prices and costs of other utilities, represented in WKG's proposal? Explain.

9. Provide the historic reservation fees for Texas Gas Transmission Corporation ("TGT") and Tennessee Gas Pipeline Company ("TGPL") for the last five years.

10. Why did WKG not choose a longer period for calculation of its Historic Reservation Fee ("HRF") benchmark?

11. Refer to the Direct Testimony of Catherine W. Meyer.

a. Explain the statement on lines 3 and 4 of page 3 that the PBR will give the utility assurance as to how costs will be handled so that it can be more creative in gas purchasing.

b. Since WKG has never made purchases in excess of firm daily contract quantities, does it unnecessarily complicate the mechanism to include it in the proposed PBR tariff?

c. Will WKG be developing written guidelines for activities such as assigning a proxy pipeline to use as a benchmark for a non-traditional source of gas?

d. How will WKG ensure that system supply reliability is never sacrificed in order to increase shared savings?

12. Describe other PBR applications made by operating divisions of Atmos and details of any resulting Commission orders in other jurisdictions approving or denying such applications.

13. Refer to Harrington testimony, page 19, lines 1-16.

a. Does WKG currently engage in any financial hedging in its gas procurement practices? If so, explain the type, the extent to which each type is used, and the net results (net gains or losses on a quarterly basis) over the last three years for each type of transaction:

b. How many people are pursuing hedging activities versus how many gas procurement activities?

c. If WKG is not engaging in any financial hedging, explain how many people will be required to perform hedging activities and whether these people will be new hires.

d. If WKG is granted authority to engage in hedging activities, could the personnel devoted to this activity also be used by other jurisdictions? In other words, are there any scale or scope economies present in hedging activity which could lower costs (labor, O&M, overhead, etc.) across one or more state jurisdictions? Explain.

14. Refer to page 25, Table 4. For the NYMEX index, explain what settled closing price means and exactly which price(s) will be used in calculating the SAI.

15. Refer to page 26, lines 5-11. Explain the circumstances under which PBR and unbundling programs would not be compatible.

16. Refer to Meyer Testimony, pages 9-10 and lines 5-16 on page 10.

a. Provide a more detailed description of what WKG considers a non-traditional method of selling gas services.

b. Describe some of the non-traditional ways the gas industry is creating to sell gas services.

c. In an increasingly competitive environment, when does a non-traditional method become traditional or generally accepted and in such an instance, why is it appropriate to benchmark (or to continue to benchmark) against one of WKG's three main pipelines? Explain.

d. Assuming that WKG's application is approved, would it be appropriate, as part of any monitoring program, to review WKG's gas purchasing practices, options, and opportunities relative to WKG's pipeline benchmarks to ensure that one reflects the other?

17. Refer to page 12, lines 3-11.

a. The sentence at line 4 refers to a methodology. Describe the methodology.

b. Explain how WKG's methodology will establish a threshold that looks prospectively at releasable volumes.

c. What is the forward time horizon which might be examined?

d. Why is there not a problem with establishing a current benchmark price against forward releasable volumes? Explain.

e. WKG states that this method will encourage it "to plan to a design Winter." How is this different from WKG's current planning strategy and why would WKG need encouragement to undertake such a planning strategy to ensure reliability?

f. Explain why WKG should not be required to at least share in any costs in the event that actual capacity release credits are less than the threshold.

18. Refer to page 12, lines 16-19. Explain how WKG obtains discounts from current tariffed rates and how, if at all, these practices might change under an incentive program.

19. Refer to Jackson testimony, page 6, lines 11-29.

a. WKG seems to be asking the Commission to make an implicit ruling that those activities inherent in its proposed PBR plan are competitive and, therefore, its share of the net revenues or expenses should be placed "below the line." Explain.

b. Is it possible for WKG to keep its share of net revenue "above the line" and not necessarily reduce base rates? Explain.

20. Explain why the proposed tariff referred to rates per 100 cubic feet (Ccf) when the rates in WKG's current tariff are per 1000 cubic feet (Mcf).

Done at Frankfort, Kentucky, this 13th day of February, 1998.

PUBLIC SERVICE COMMISSION

B. J. Helton
For the Commission

ATTEST:

Helen C. Helton
Executive Director